

Senate Energy and Technology Committee  
Chairman Mike Nofs  
Testimony of Daniel M. Dasho  
President & CEO  
Cloverland Electric Cooperative

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My name is Daniel M. Dasho.  
My business address is  
Cloverland Electric Cooperative  
2916 W M-28  
Dafer, Michigan 49724.

I am the President and Chief Executive Officer of Cloverland Electric Cooperative. I appreciate Senator Nofs and the committee giving me the opportunity to testify today.

Cloverland is the second largest Electric Cooperative in the state and the poster child for what's wrong with AES legislation.

I have served on the Board of Directors of ReliabilityFirst and the Southeast Electric Reliability Council (SERC), both regional entities responsible for implementing the National Electric Reliability Council (NERC) standards.

I was on the stakeholders group at MISO where I served as chair of the MISO Finance Subcommittee.

I was on the Staff of the Public Service Commission of Wisconsin, where I was involved in Integrated Least Cost planning for the state of Wisconsin.

**Cloverland Electric Cooperative**

Cloverland Electric Cooperative is a Michigan nonprofit corporation engaged in the generation, distribution and sale of electric energy to member customers in the counties of Chippewa, Delta, Lapeer, Mackinac and Schoolcraft in Michigan's Upper Peninsula, including the cities of Sault Ste. Marie, St. Ignace, Mackinac Island and Manistique. Cloverland has approximately 42,000 member customers, consisting of residential, farm residential, seasonal, commercial, outdoor lighting

and large power accounts.

We are members of the Michigan Electric Cooperative Association (MECA). We believe that MECA is very important in getting the Cooperative message to our Legislators in Lansing and Washington D.C. It is very unusual for Cloverland to take a different position than MECA but in this case we must. Our Board of Directors, who represent our members, has adopted a Resolution supporting the repeal of PA 286. Our Board knows that our membership wants us to make every effort in eliminating a law that caused so many problems for Cloverland.

### **Alternative Electric Supply**

I am here today to speak to the issue of AES and the devastating problems it has caused to Cloverland's members.

### **AES Law Changed**

As you know the AES law was changed in 2008 to set a 10% cap on AES load a utility has to allow. In addition the AES law allowed for the Iron Ore mines in the UP to take 100% of their load to an AES. The mines did this in 2013, following the end of a five year stranded cost payment period. Once the obligation to pay stranded costs ended the mines took their load to an AES. That started the avalanche of legal proceedings at the Federal Energy Regulatory Commission (FERC) in Washington, D.C.

When the mines left their electric retail supplier, WEPCO, they took 80% of WEPCO's UP load with them. WEPCO announced that it planned to close the Presque Isle Power Plant (PIPP) after two iron ore mines took advantage of the Legislative exception to Michigan's AES cap and went with another electricity provider. Although Michigan law generally limits an AES to 10% of any utility's load, Michigan's legislature enacted an exemption to the 10% limit specifically for the Mines.

The unintended consequences of this change are hurting Cloverland and the UP.

### **MISO Involvement**

WEPCO no longer needed a power plant in the UP to serve its remaining load and moved to close the Presque Isle Power Plant (PIPP). The closing of the PIPP

had to be approved by the Mid-Continent System Operator (MISO) which oversees the day to day operations of the electric grid from Manitoba to the Gulf Coast. MISO, recognizing the importance of the PIPP to the reliability of the UP, would not allow WEPCO to close the PIPP, which has a capacity of over 350 MW, requiring its operation for grid security. PIPP is the largest baseload resource in the UP. WEPCO explained to MISO that it would save \$52 million by closing the plant and if MISO wanted it as a System Support Resource (SSR) unit, MISO was to pay WEPCO the \$52 million to keep the plant running.

### **System Support Resource (SSR)**

WEPCO was to receive System Support Resource (SSR) payments of \$52 million for operations and an additional \$64 million for upgrades required by the EPA. A total of \$116 million over 15 months was the estimated cost. Payments would be needed until an alternative power source could be put in place allowing for the retirement of PIPP.

Originally, the SSR payments were to be billed to all utilities in the American Transmission Company (ATC) footprint who would share in PIPP's annual operating costs on a pro rata basis. ATC serves the UP of Michigan and a large part of Wisconsin. This meant that Michigan's UP utilities would pay 8 percent of the plant's operating costs and Wisconsin-based utilities would assume the other 92 percent. This was done under a FERC approved MISO tariff.

Even though the tariff had been previously approved by FERC and in effect for several years, the Wisconsin Public Service Commission filed a complaint with FERC, challenging the tariff's requirement that all utilities share costs on a pro rata basis.

On July 29, 2014, FERC issued an order invalidating the long-standing tariff for cost sharing. FERC found that the tariff was unjust and unreasonable. It required a new tariff based on "those who benefit should pay."

As a result of that order and others, electric utilities and their customers in the UP—including Cloverland—were to pay the bulk of the \$97,000,000 in annual operating costs and environmental upgrades to keep PIPP open.

Needless to say Cloverland had to get involved at FERC to try and protect our members from these unjust costs. It is clear to Cloverland that we do not benefit

from the operation of the PIPP and should not have to pay the SSR costs. However, MISO and FERC had a different opinion.

And the issue got worse for Cloverland, because WEPCo took actions to make Cloverland liable for an even greater share of the SSR payments than originally contemplated. Cloverland was included in a new MI UP load balancing authority ("LBA") to which the SSR obligations were assigned. Instead of an 8% share the UP was on the hook for 99% of the SSR costs as of December 1, 2014.

The problem for Cloverland was in the cost allocation made by MISO. Cloverland doesn't benefit from the operation of the PIPP but we were getting about 25% of the SSR costs.

In October 2014, WEPCO publicly acknowledged the inequity of Cloverland having SSR obligations when Cloverland did not benefit from the grid stability provided by PIPP. Gratefully, on February 19<sup>th</sup> FERC agreed with Cloverland's arguments and moved the cost allocation to those who benefit.

This issue is still not resolved and further action is coming from FERC on the cost allocations. That is the result of PA 286.

The Mines have returned to bundled service from WEPCO starting on February 1<sup>st</sup> and WEPCO has ended the SSR payments as of that date.

Cloverland's efforts were directed at the costs that were coming as a direct result of the Michigan Choice law. The over \$22,500,000 increase in MISO fees to Cloverland was a direct result of SSR payments required to keep the PIPP plant running. This required Cloverland to seek a power supply cost recovery factor of over 3.4 cents for 2015, a 25% increase for residential customers if we have to put it in place.

Such a dramatic increase in power supply costs would have been crippling to Cloverland and its members. When our membership learned of what was happening, they made great efforts to contact our elected officials in Washington and Lansing. Our members also contacted WEPCo's top management as well as the mines top management. We wanted to eliminate the threat by getting the mines to go back to WEPCO.

The message was clear, get the mines back to WEPCO. “End the AES law that put Cloverland at risk.” The unintended consequences of the law have been shown and the damage it could have done to Cloverland has been averted, we hope.

However, the SSR costs from February of 2014 to February of 2015 have yet to be allocated and paid. The UP is still required to pay these costs during this time. It appears that the UP will be on the hook for about \$55 million for that time period.

That will have to be paid by those who benefited from the PIPP operation. These costs are a direct result of PA 286 law. The UP will be hit with these costs that, without the law, would not have even existed. The AES law with the mining exemption should be repealed. It should be removed from SB 437. The current language is still a loaded gun pointing at the UP. The exemption for the mines remains in place, albeit with certain language changes. The UP electric reliability is dependent on the PIPP being operational and if the mines were to leave service from WEPCO we would be right back where we started. Further, if a new plant is built and the mines leave to an AES again, the full cost of the new plant would become the UP's.

We would like to see language in SB 437 that would have the entire state share the costs of any unintended consequences that those of us in the UP would have to bear due to the proposed AES language.

The UP is in need of serious infrastructure improvements. We have seen the state require a new power plant to replace PIPP in the WEPCO-Integrus merger. Senator Casperson has put forward a bill to create new transmission to better tie the UP to the rest of the state. The UP needs a well thought out long range plan to meet our future needs. We do not have the facilities we need to support new growth or reliable supply. As a minimum the UP should not be required to have the AES law forced on us until we have the type of system that is present in the Lower Peninsula. If there is an exemption it should be that no AES be allowed in the UP until the infrastructure has been addressed.

### **AES at 10%**

In addition to the Mines exemption, I have a major problem with the AES law at

10%. The only Coops in Michigan that have customers with an AES are in the UP. A total of 10% of our sales have taken by an AES. Our revenues that serve our members decline directly with each lost kWh of sales.

In this case, Cloverland lost about \$400,000 in total sales monthly from June of 2014 through March of 2015. Those sales would have provided about \$120,000 a month for operations. Now that money has to come from our other members.

Our large customer gets a benefit paid for by our remaining members. This is cost subsidization at its worst. From my prospective the AES law is a cost shift from those taking advantage of the law to those that are left.

As a “not for profit” these lost revenues have to come from our membership. The lost revenue for us is significant. Our other members must make that up \$120,000, a “Choice tax” if I may.

Now the customer that went with an AES, the Paper Mill, sadly has closed its doors. Our thoughts and prayers are with those Cloverland members in Manistique who must suffer through this long established community business shutting its doors.

However, that opens the door for another industrial to get in line for the 10% option. So not only do we lose all the load of the Paper Mill, we could lose another 10% due to the AES law. When that happens we will be down 20% in revenues and that will end up hurting my membership because it will require them to pay higher rates for the same service they get now.

When a customer goes to an AES our wholesale supplier loses that load. However, the supplier still has the same plants built to serve the previous load and must recover the same cost. That leaves the remaining customers left with the bill. Again, customers taking power through an AES get their savings at the cost to the customers without the option. It makes no difference whether it's a hotel, a mine, a school or a hospital. There is no savings for the tax payers for schools going to an AES because any saving to them comes right back through higher electric costs due to less load. There is no free lunch; the costs for the system must be paid.

I agree with SB 437 in its attempt to build capacity responsibility into the AES

law. Today a AES customer could have a two or three year contract. At the end of the contract the load comes back to the utility if market prices exceed the home utilities cost. If all 10% comes back, the capacity margin for that utility declines. If a utility had an 18% reserve capacity and suddenly 10% of the Choice load comes back the reserve margin sinks to 8% well below the amount required for reliability.

Michigan needs a long term least cost plan that can serve the entire load. We need to have the entire load accounted for and paying its fair share of the long term costs.

During a time when there is extra capacity in the marketplace it doesn't seem to be a problem for those customers choosing to be served by an AES. However, with the new MATS EPA regulations our excess capacity will diminish in the next two years.

Who is planning on serving the loads in Michigan? The AES law frustrates good least cost planning. The Choice law is a bad choice for Cloverland, our members and Michigan. I would advocate for the removal of the AES language in SB 437.